



OMB's Mission

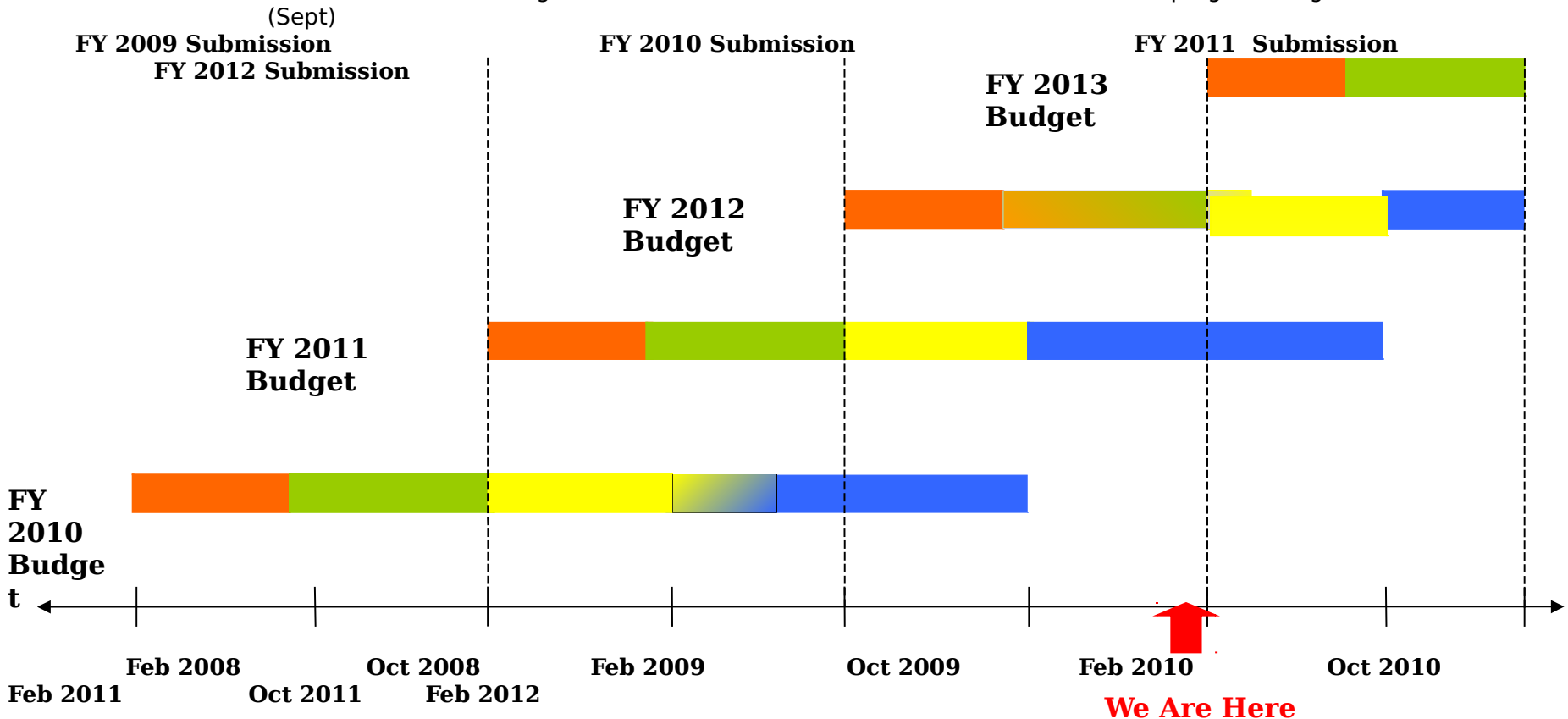
- Communicate/align Presidential policies to agencies
- Keeping President informed on Departmental activities to ensure government-wide coordination & efficiencies
- Preparing budget, negotiating appropriation bills & controlling expenditures
- Clearing & coordinating legislation, testimony, & regulations
- Advising Department of 'best practice' management
- Aiding effective & economical program performance



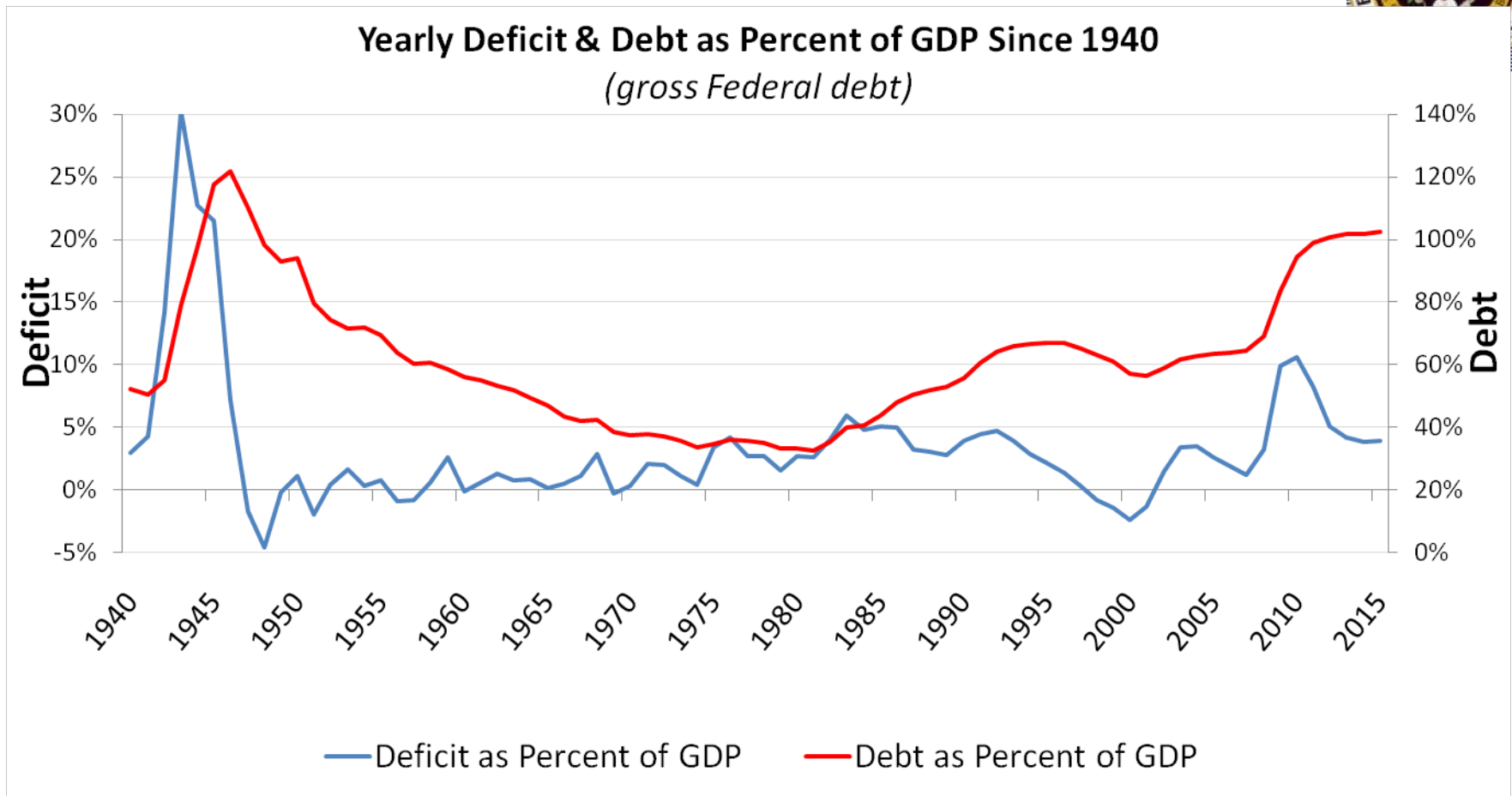
National Security Division

- ❑ Led by a senior political official – “Associate Director”--and a career deputy
- ❑ Four branches headed by Branch Chiefs & staffed with Program Examiners
 - ❑ Force Structure and Investment
 - ❑ Operations & Support
 - ❑ C4I
 - ❑ Veterans Affairs/Defense Health
- ❑ Approximately 40 staff
- ❑ Scientists, economists, historians, ex-military officers, ex-CIA, MBAs, public policy school graduates, ex-Congressional staffers
- ❑ Extensive contacts with DoD, especially OSD

Overlapping Budget Processes



Deficit and debt are at historically high levels



Current deficit and debt are surpassed only by World War II levels

Source: <http://www.whitehouse.gov/omb/budget/Historicals/> - Table 1.2—Summary of Receipts, Outlays, and Surpluses or Deficits (-) as Percentages of GDP: 1930–2015

Source: <http://www.whitehouse.gov/omb/budget/Historicals/> - Table 6.1—Federal Debt at the End of Year: 1940–2015

The fiscal situation is dire



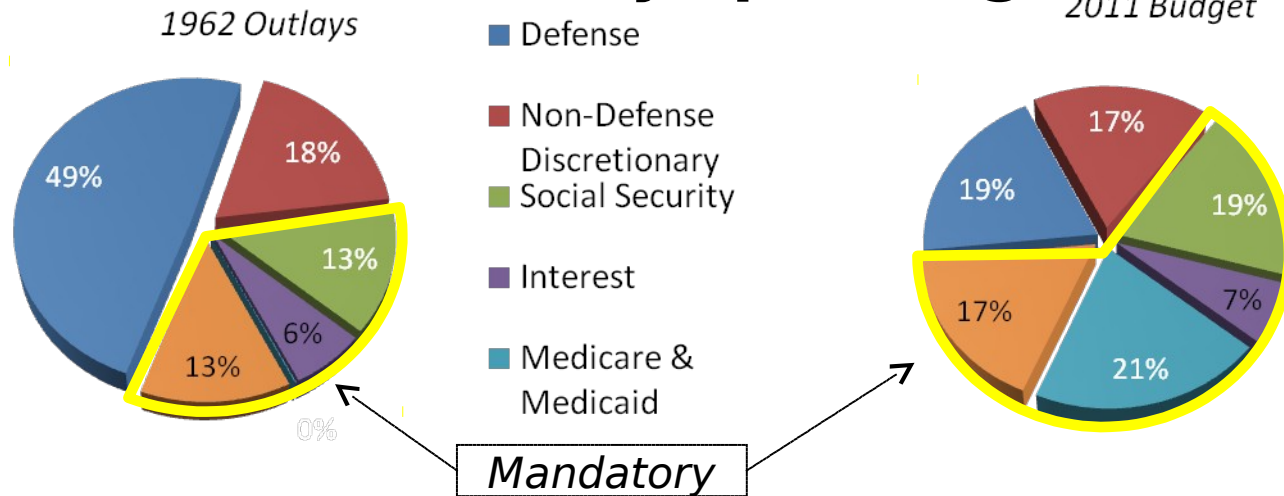
Current gross Federal debt is \$12.3 trillion
(Debt held by the public is \$7.8 trillion)

By 2015, the national debt is projected
to hit:

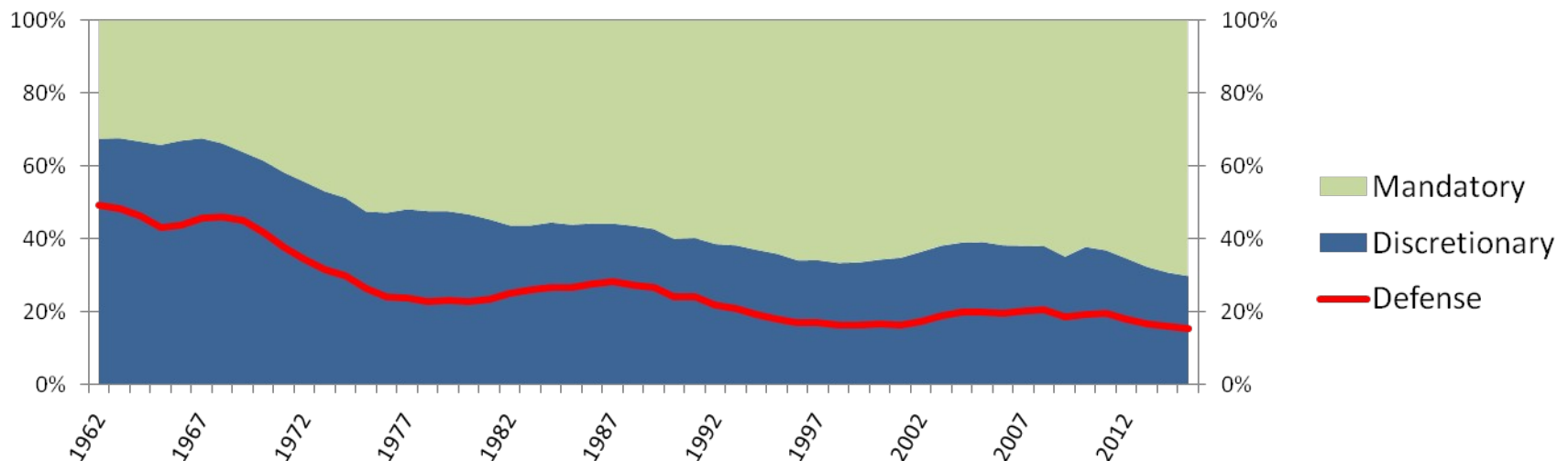
\$19.7 trillion

103% of GDP

Mandatory spending drives budget growth and crowds out discretionary spending



Mandatory, Discretionary, & Defense as a Percent of the Budget

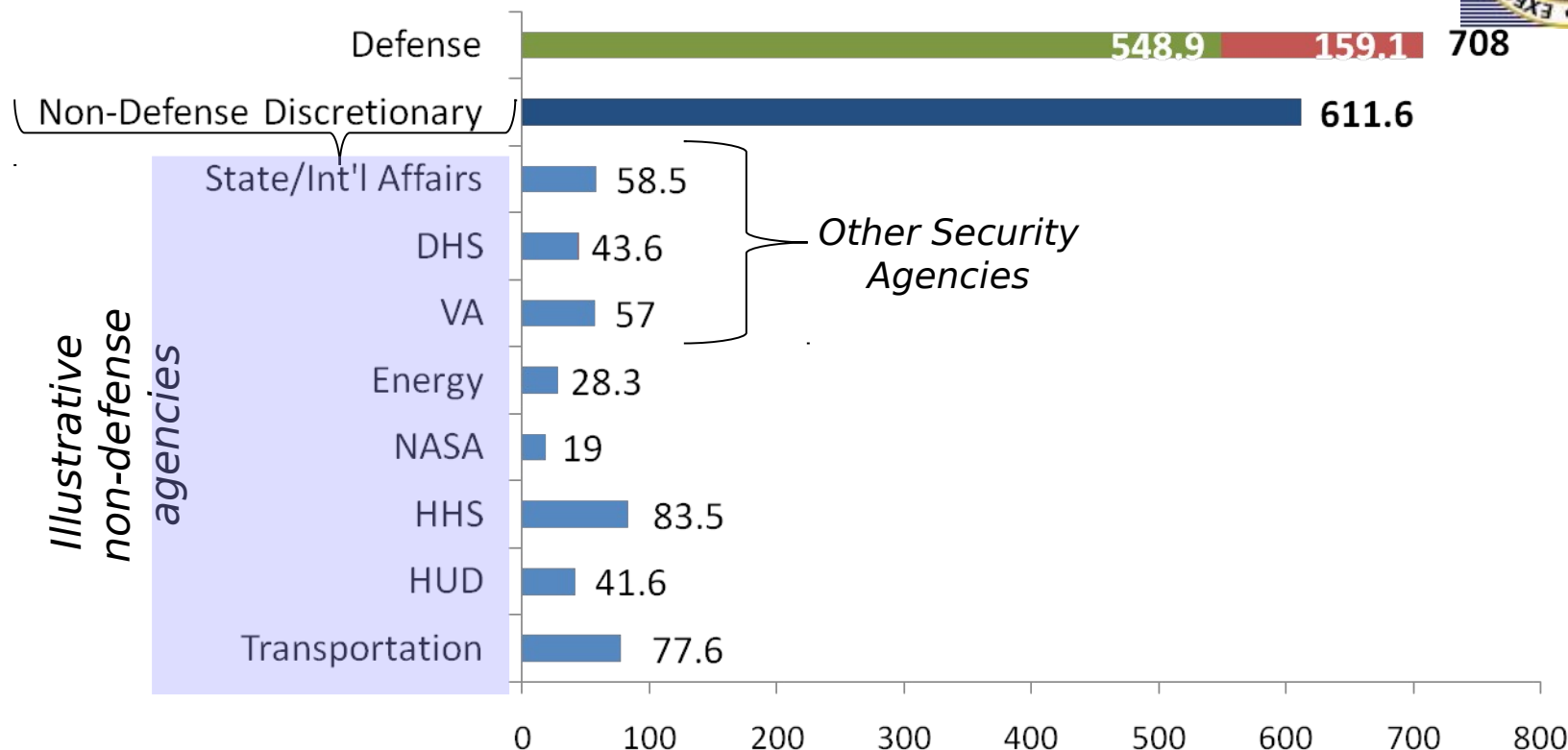


Source: <http://www.whitehouse.gov/omb/budget/Historicals/> - Table 8.1—Outlays by Budget Enforcement Act Category: 1962–2015
 Source: <http://www.whitehouse.gov/omb/budget/Historicals/> - Table 8.5—Outlays for Mandatory and Related Programs: 1962–2015

Defense budget is over half of all discretionary spending

FY 2011 Discretionary Budget by Agency

(budgetary resources, \$ billions)



DoD budget dwarfs other security spending (e.g. State, DHS):

- Is security spending properly balanced?
- How much of a non-defense role do we want DoD to play? (e.g. border security, post-conflict reconstruction, disaster response)

Major Defense Issues

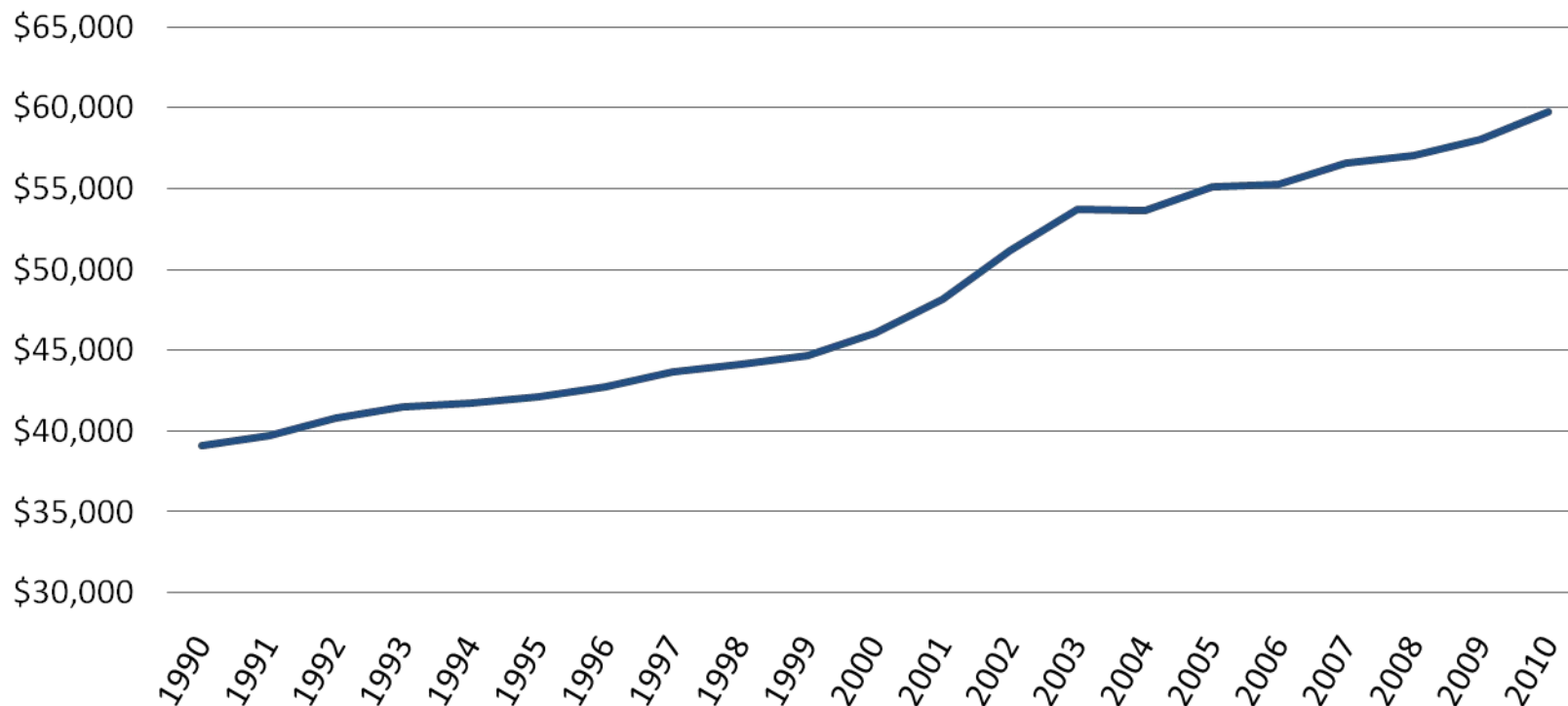


- ❑ Rising costs of TRICARE/personnel
- ❑ Acquisition reform/terminations

Troops are getting more expensive



Personnel Costs per Service Member
(constant 2010 dollars)

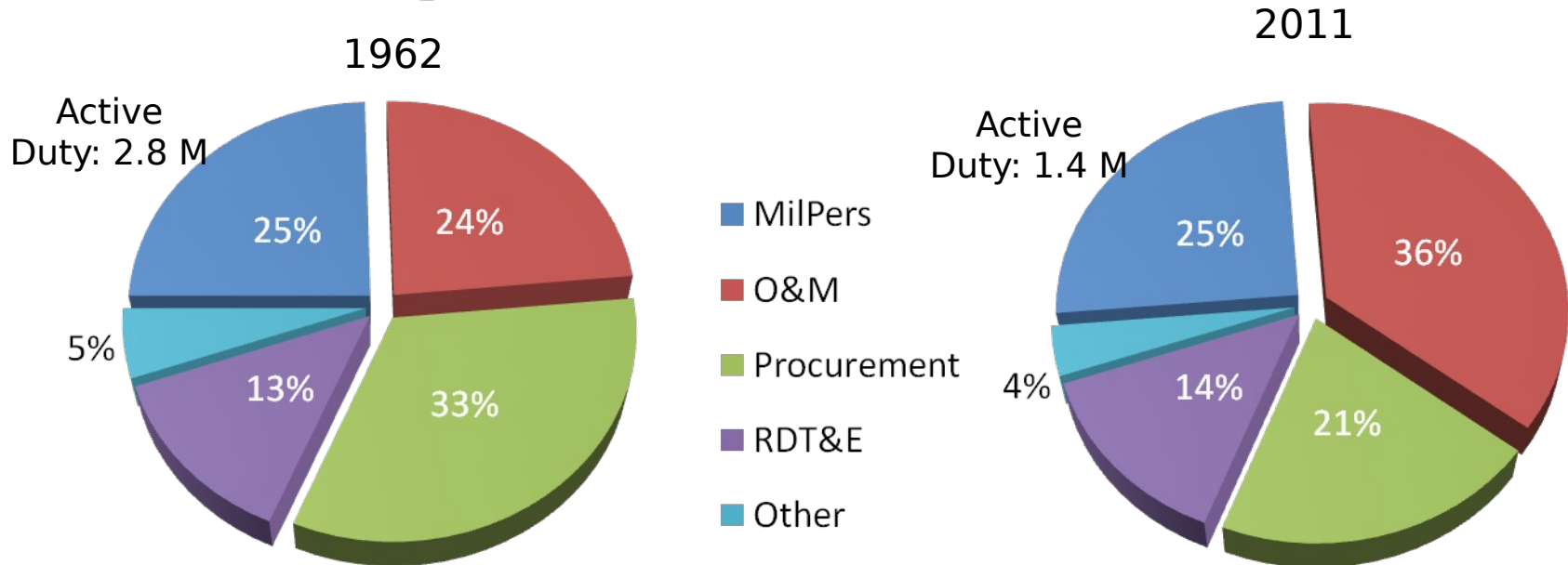


Base military compensation has risen by 53% in real terms since 1990.

Source: "National Defense Budget Estimates for FY 2009" - Table 1-9: Function 050 National Defense Budget Authority
Source: "National Defense Budget Estimates for FY 2009" - Table 7-5: DOD Manpower - FY 1940 to FY 2009



Defense budget trends: O&M and personnel costs on the rise



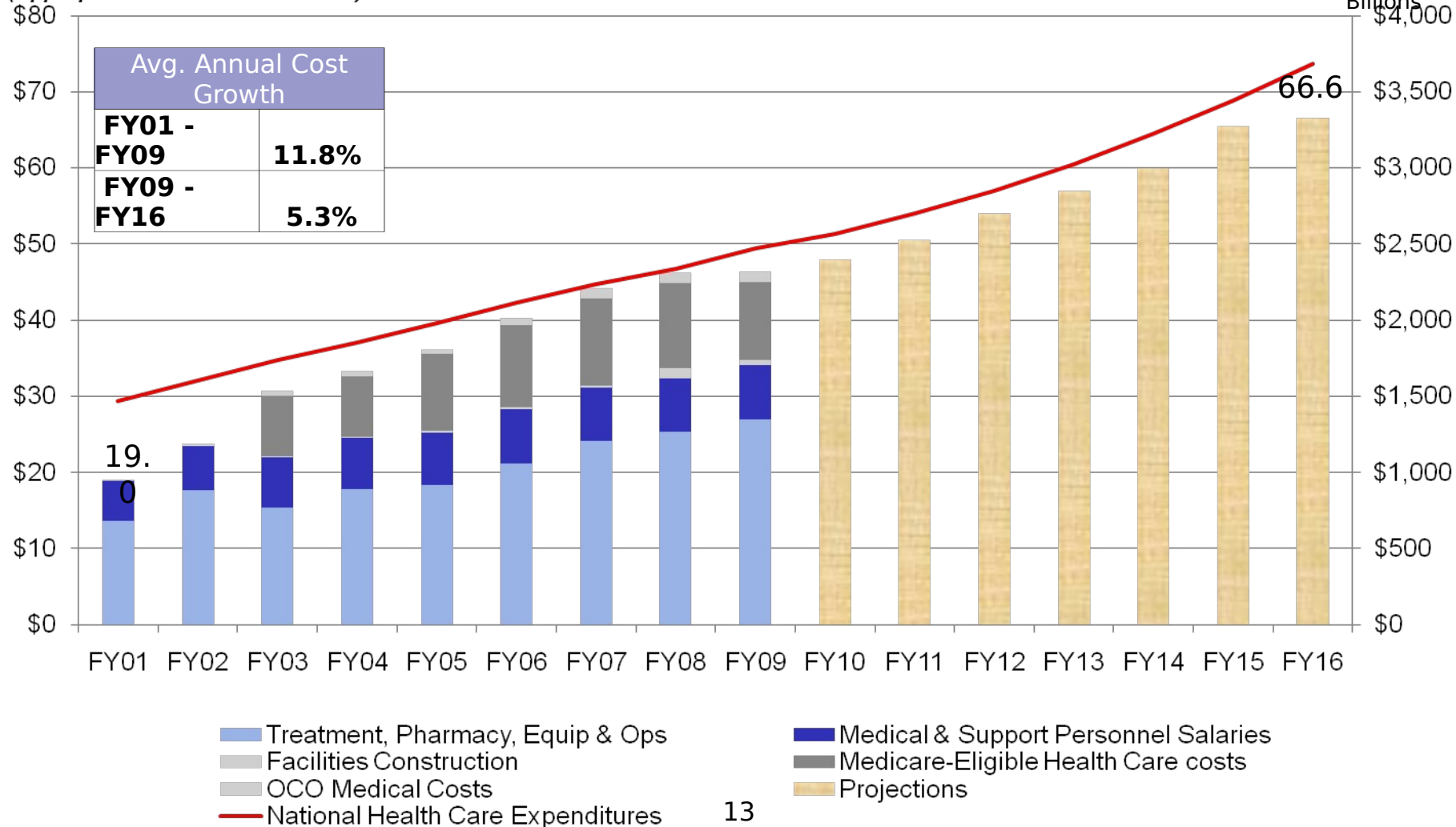
- O&M increases seem small but accumulate rapidly.
- Force structure cannot be sustained without reining in personnel and O&M costs

Costs Continue to Rise



Military Health Care from FY 2001 to FY 2016

(Appropriated Amounts in Billions)



Annual Health Care Costs Incurred



by DoD Members

DoD Health Care Costs - \$51Billion annual

- ☐ DoD Medicare Eligible Retiree Health Care Fund \$10.9B
- ☐ Medical Military Personnel \$7.9B
- ☐ *Department of the Treasury - Unfunded Retiree Account ~\$5B (\$19B)*
- ☐ Medical Military Construction/Sustainment - \$1.0B
- ☐ DoD DHP Costs \$31.0B
- ☐ Line Operational Medical Costs - ??

Why are Costs Rising?



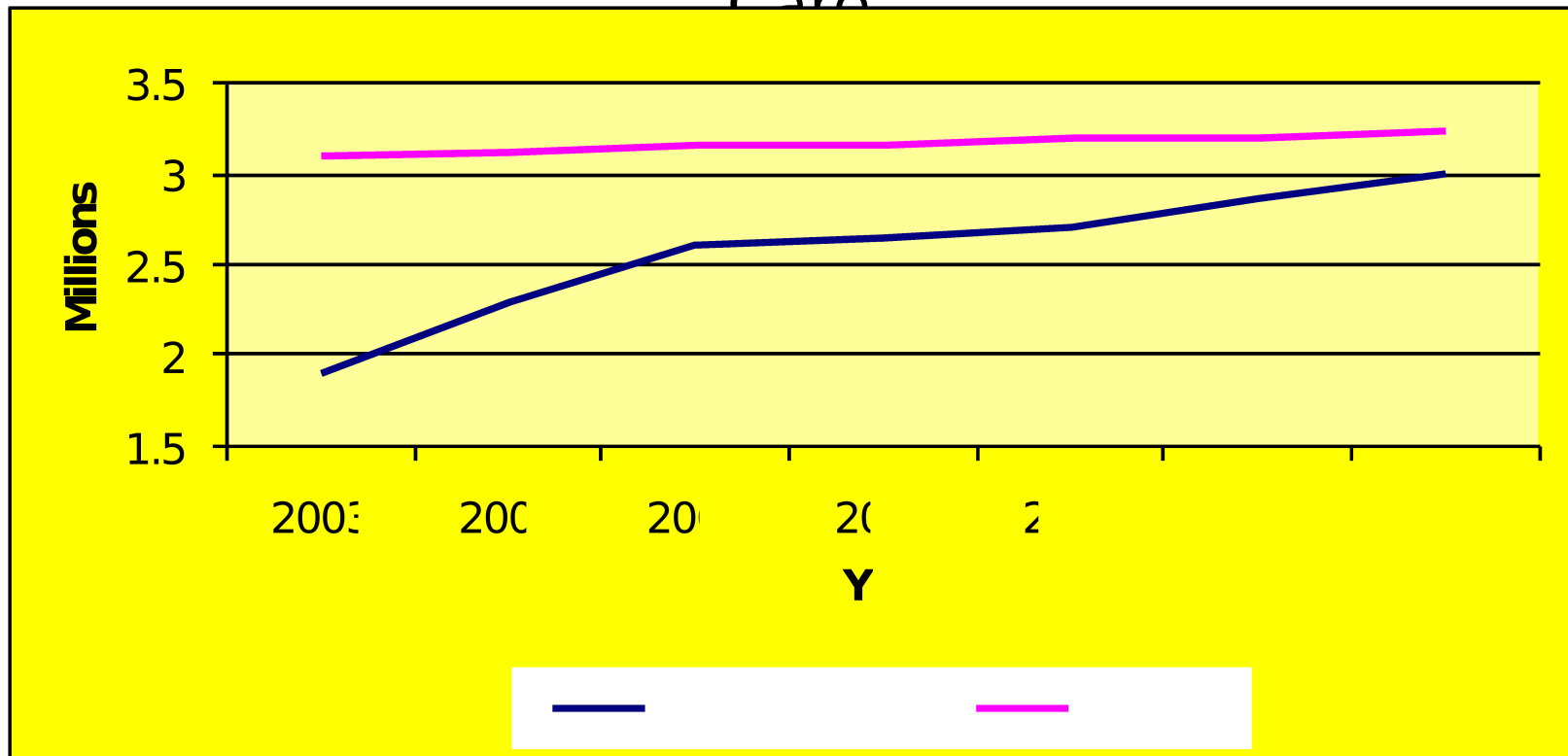
- ☐ Health Care inflation
- ☐ Increasing Utilization (e.g. Mental Health)
- ☐ Benefit Improvements
- ☐ More Beneficiaries
 - ☐ Higher Endstrength
 - ☐ More Retirees

Retiree Health Care

(Between ages 39-65)



Growth of under 65 retirees who use DoD for Health Care



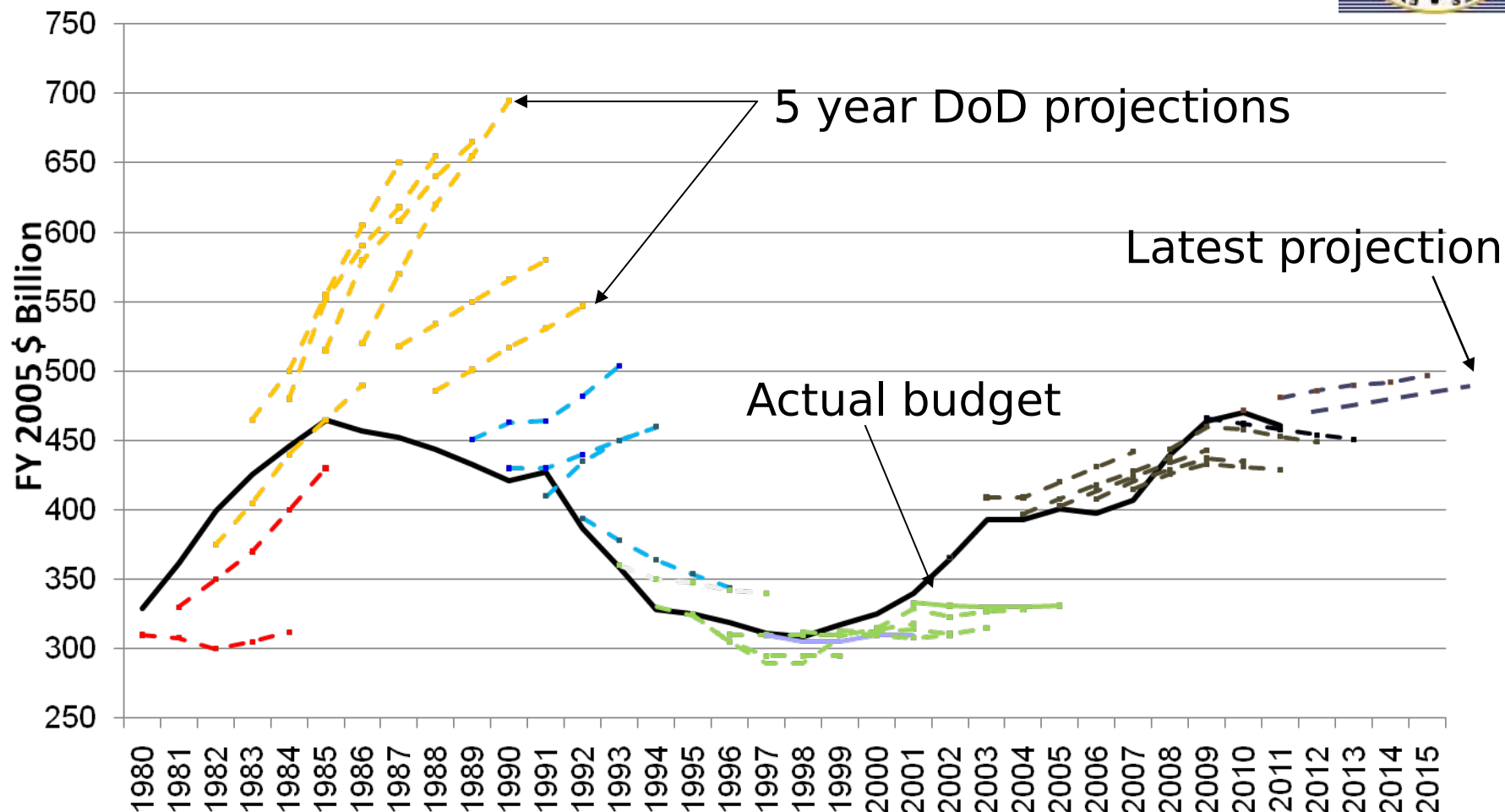
Addressing the Issues



- ❑ Health Care inflation
 - ❑ Health Care Reform
- ❑ Increasing Utilization
 - ❑ Incentives
- ❑ Benefit Changes (e.g. Mental Health)
 - ❑ Cost Shares
- ❑ More Beneficiaries

Budget Forecasting: The Difficulties

DoD 5 year Forecasts v. Actual Budgets



Carter **Reagan I** **Reagan II** **G. Bush** **Clinton I** **Clinton II** **G.W. Bush**
I G.W. Bush II **Obama**

Fiscal Year - Base Budget excluding war funding

President during Budget Submission



Questions?